

**TRANSMITTAL AND NOTICE OF APPROVAL OF
STATE PLAN MATERIAL**

FOR: HEALTH CARE FINANCING ADMINISTRATION

1. TRANSMITTAL NUMBER:

9 3 — 2 6 (MA)

2. STATE:

New Jersey

3. PROGRAM IDENTIFICATION: TITLE XIX OF THE SOCIAL
SECURITY ACT (MEDICAID)

Title XIX

TO: REGIONAL ADMINISTRATOR
HEALTH CARE FINANCING ADMINISTRATION
DEPARTMENT OF HEALTH AND HUMAN SERVICES

4. PROPOSED EFFECTIVE DATE

July 6, 1998

5. TYPE OF PLAN MATERIAL (Check One):

☐ NEW STATE PLAN☐ AMENDMENT TO BE CONSIDERED AS NEW PLAN☒ AMENDMENT

COMPLETE BLOCKS 6 THRU 10 IF THIS IS AN AMENDMENT (Separate Transmittal for each amendment)

6. FEDERAL STATUTE/REGULATION CITATION:

42 C.F.R. 447, subpart E

7. FEDERAL BUDGET IMPACT:

a. FFY 1998 \$ -0-

b. FFY 1999 \$ -0-

8. PAGE NUMBER OF THE PLAN SECTION OR ATTACHMENT:

Attachment 4.19-A
Pages I-34 through I-44

**SEE REMARKS

9. PAGE NUMBER OF THE SUPERSEDED PLAN SECTION
OR ATTACHMENT (If Applicable):

same

10. SUBJECT OF AMENDMENT:

Capital Facility Appeal (CFA) criteria

11. GOVERNOR'S REVIEW (Check One):

☐ GOVERNOR'S OFFICE REPORTED NO COMMENT☐ COMMENTS OF GOVERNOR'S OFFICE ENCLOSED☐ NO REPLY RECEIVED WITHIN 45 DAYS OF SUBMITTAL☒ OTHER, AS SPECIFIED:

Exempt pursuant to 7.4 of the Plan

12. SIGNATURE OF STATE AGENCY OFFICIAL:

13. TYPED NAME:

Michele K. Guhl

14. TITLE:

Acting Commissioner

15. DATE SUBMITTED:

9/15/98

16. RETURN TO:

Division of Medical Assistance
and Health Services
P.O. Box 712
Trenton, New Jersey 08625-0712

17. DATE RECEIVED:

FOR REGIONAL OFFICE USE ONLY (Do not fill in unless you are a Regional Office)

19. EFFECTIVE DATE OF APPROVED MATERIAL:

July 6, 1998

21. TYPED NAME:

Sue Kelly

23. REMARKS:

As State letter of 5/17/01, originally submitted pages has had their texts revised but
numbering remain the same.

- i. Indirect patient care for items other than listed in Section 5.11;
- ii. Health planning fees;
- iii. Capital facilities allowance in Section 5.18;
- iv. Physician fee for service;
- v. Child Psychiatric hospital direct and indirect;
- vi. Special perinatal expense adjustment;
- vii. Trauma center adjustment;
- viii. Hemophilia adjustment;
- ix. Regional perinatal adjustment;
- x. Personnel health allowance in Section 5.20;
- xi. Sickle cell adjustment;
- xii. Continuous adjustments;
- xiii. Outlier reversal adjustment;
- xiv. Poison control cost; and

- (f) No Statewide transition adjustment not otherwise specified in this chapter will be included in this rate.

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5.18 Capital Facilities

a) Capital Facilities, as defined in Section 6.18, shall be included in the rate in the following manner:

1) Building and fixed equipment:

- i. The yearly Capital Facilities Allowance is computed using information provided by the Share Cost Reports. For hospitals on a calendar year basis, this amount will be its 1992 depreciation and interest expense excluding any portion associated with major movable equipment and any interest income reported as an expense recovery. For those hospitals on a fiscal year basis, actual year's depreciation and interest applicable to rate year 1992 shall be used excluding any portion associated with major movable equipment and any interest income reported as an expense recovery.

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- ii. All building and fixed depreciation and interest capital costs as defined in Section 6.18 related to GME programs shall be determined based on the 1992 audited Medicare Cost Report (HCFA-2552) and shall be excluded from the base year cost used to calculate the Medicaid DRG inpatient rates.

2) Major Movable Equipment:

- i. For the purpose of calculating the Price Level Depreciation Allowance, Major Movable Equipment is grouped into four categories based on the cost center function where the equipment is utilized: Beds and nursing equipment; Diagnostic and therapeutic equipment; General service equipment; and Business service equipment.
- ii. The following rules shall apply in calculating the Price Level Allowance for a given year:

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- (1) Only equipment which has not been fully depreciated at the start of the fiscal year is to be used in the calculation of the Price Level Allowance.
- (2) The depreciation recorded and reported on all equipment subject to the Price Level Allowance must be calculated by the straight-line method, using at the time of the cost filing the most recent approved American Hospital Association (AHA) Recommended Useful Life (that is, 1978 revision) or Asset Depreciation Range (ADR).
- (3) Only capitalized equipment and related capitalized cost can be used in the calculation of the Price Level Allowance.
- (4) The price level factors for each of the four categories will be developed by the Division.
For years prior to current cost base year, the

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factors to be used for price leveling depreciation
are as follows:

Category	Proxy
Beds and Nursing Equipment	Marshall and Swift Hospital Equipment Cost Index
Diagnostic and Therapeutic Equipment	Marshall and Swift Hospital Equipment Cost Index
General Service Equipment	Producer Price Index (PPI) 1161, Food Products Machinery (41.18%), PPI 1241.02, Laundry Equipment (23.53%). PPI 113 less 1134 and 1136, Metalworking Machinery less Industrial Furnaces and Abrasive Products (35.29%).
Business Service Equipment	PPI 1193 less 1193.06, Business and Store Equipment (less Coin Operated Vending Machines) and PPI 122, Commercial Furniture.

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- (5) Assets retired before the close of the fiscal year are not to be used in the calculation of the Price Level Allowance.
- (6) The amount of the Price Level Allowance shall be calculated as follows:
- (A) Current year straight-line depreciation of each asset being depreciated is multiplied by the price level factor corresponding to the year the asset was acquired to determine price level depreciation. Straight-line depreciation is then subtracted from price level depreciation and the result totaled to determine the amount of the Price Level Allowance provided by the following calculation:

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Algebraically the calculation is as follows:

D . . .	(equals) Current year depreciation, ordered by the year of acquisition of the asset being depreciated.
F . . .	(equals) Price level factor for the year the asset was acquired.
PLA . . .	(equals) Price Level Allowance.
PLA . . .	(equals) $(D \times F) - D$

- (7) The interest component of cash disbursements relative to capitalized Major Movable Equipment leases is to be classified as interest expense, in accordance with GAAP, and not used as a basis for calculating the price level depreciation premium.
- (8) The total Price Level Allowance will be allocated to cost centers based upon the accumulated depreciation of all Major Movable Equipment not fully depreciated.

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- b) Any new capital facilities construction with a valid certificate of need from the New Jersey Department of Health and Senior Services may request a capital facilities adjustment in rates through the review and appeal process as described in Section 9 except that a hospital which meets the requirements of (b)1 below may request a capital facilities adjustment in accordance with (b)2 below.
- 1) A hospital may submit an appeal specific to its CFA without going through the full rate review process, if:
- i) The appeal is for a single capital project in excess of \$20 million which is for replacement beds which reduce the number of hospital beds available in the State and as of September 15, 1997, the hospital has an approved certificate of need for this project;
- ii) The hospital receives no direct State appropriation;
and

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- iii) The hospital has a 1995 percentage of low income revenue greater than 50 percent. The low income revenue percentage shall be based on revenue data as reported on the submitted 1995 New Jersey Hospital Cost Report, after desk audit. The low income revenue percentage shall be based on the sum of the Medicaid revenue as reported on Forms E-5 and E-6, line 1, column E, plus the Charity Care revenue as reported on Forms E-5 and E-6, line 1, column J, divided by the sum of the total revenue as reported on Forms E-5 and E-6, line 1, column M.
- 2) If all the conditions in b) 1) above are met, the hospital shall submit all supporting documentation to the Department of Human Services, Division of Medical Assistance and Health Services, Administrative and Financial Services. The Division shall issue a written determination once the supporting documentation is reviewed and the hospital may appeal the determination pursuant to Section 9.1 (d).

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5.19 Reserved

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- 3) A hospital which meets the condition of (b)1) above, shall receive an adjustment to its fee-for-service DRG rates, allowing depreciation and interest as of the first full year of operation on the capital costs related to the new capital project, insofar as the adjustment is in excess of the existing CFA component already in its regulatory rate. In addition, a hospital which meets the condition of (b)1) above, shall receive a payment for its Capital Project Funding related to Title XIX managed care utilization.
- i. Payments to eligible hospitals shall begin the calendar year following project completion and facility operation. These hospitals shall receive a lump sum payment for Capital Project Funding each month. The monthly payment shall be one-twelfth of the approved annual amount.
- ii. The hospital-specific Capital Project Funding annual amount shall be equal to the principal and interest cost associated with the Capital Project, multiplied by the Title XIX managed care percent for inpatient services, less any capital costs that the Division of Medical Assistance and Health Services includes in its managed care capitation rates.

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Supersedes TN 93-11 Effective Date JUL 06 1998